



CA Inter Audit Test-2 (Ch-1 + SA 210 + SQC-1/SA 220)

Time: 1 Hour

Marks: 30 Marks

Instructions:

- Reading time: 5 mins
- Do **underline key words** while presenting answer
- Leave **proper spacing** between 2 points/paras
- Do quote SA No. with Name only wherever applicable.

MCQs [10 Marks (5Q * 2 Marks each)]

1. CA Piyush is offered appointment as statutory auditor of branch of a bank. He has also taken housing loan of Rs.75 lakhs from same bank. Identify threat to independence involved.

- Advocacy threat
- Self-interest threat
- Self-review threat
- Familiarity threat

2. A practicing Chartered Accountant is appointed by a company to perform certain agreed-upon procedures relating to its trade payables. Such agreed upon procedures include verifying listing with books of accounts, sending confirmation letters and reporting factual discrepancies to company management. Which of statements is correct in this context?

- The practicing CA shall perform work in accordance with Standards on Related Services and SA 220.
- The practicing CA shall perform work in accordance with Standards on Related Services and SQC 1.
- The practicing CA shall perform work in accordance with Standards on Auditing including SA 220.
- The practicing CA shall perform work in accordance with Standards on Assurance Engagements and SQC 1.

3. CA Rao is conducting an audit for ABC Ltd., a large client. He is informed by the client's CFO that if they report certain deficiencies, the auditor's firm may not be considered for future engagements.

Which type of threat does this scenario represent?

- Familiarity Threat
- Intimidation Threat
- Self-interest Threat
- Advocacy Threat

4. M/s RJ & Associates, Chartered Accountants, has been auditing the books of GP Resorts Private Limited for the past two years. GP Resorts Private Limited has experienced a significant increase in visitors due to a successful marketing campaign. This increase in number of visitors has prompted the Resort to introduce new services, such as event hosting, which contribute to higher revenue.

Whether M/s RJ & Associates should issue a revised audit engagement letter to the GP Resorts Private Limited?



- a) No, since M/s RJ & Associates has been auditing the GP Resorts Private Limited for the past two years, new audit engagement letter is not required.
- b) Yes, the auditor is required to issue a new audit engagement letter for each period.
- c) Yes, a new engagement letter is required due to significant changes in the nature and size in the business of the GP Resorts Private Limited.
- d) No, M/s RJ & Associates is not required to provide a new engagement letter, as GP Resorts Private Limited will send new engagement letter to M/s RJ & Associates.

5. Which of the following is normally not included in engagement letter sent by auditor to client?

- a) Responsibilities of auditor
- b) Responsibilities of management
- c) Auditor's fees
- d) Tangible benefits of audit

Descriptive Questions [20 Marks]

1. "Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. In this context, give three examples of assurance engagements highlighting difference in nature of assurance provided by such engagements.

[3M]

2. CA Krish, partner of firm AK & Co. is auditing books of 2 States Pvt Ltd. He is in doubt as to how consistency in quality of engagement performance is achieved. Guide him in this regard.

[3M]

3. CA N, engagement partner of LPS & Associates, is planning for audit of a large company. As part of preliminary engagement activities being performed in this regard, he wants to ensure that compliance with independence requirements is adhered. How shall he form a conclusion that audit firm complies with independence requirements?

[4M]

4. On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. The auditor may decide not to send a new audit engagement letter or other written agreement each period. Explain the factors an auditor considers to be appropriate to revise the terms of the audit engagement or to remind the entity of existing terms.

[5M]

5. ABC & Associates, an audit firm, has been approached by a prospective company client that has been in business for about 10 years to conduct an audit of its financial statements. Before accepting the audit engagement, the firm wants to assess the integrity of prospective client. With regard to the assessment of integrity, which matters should be considered by the audit firm?

[5M]